higher wages. The Fed subsidy to these capital industries lasts only until the bust. Workers are then laid off and displaced.

The Free Market. The free market, of course, does not mean utopia. We live in a world of differing intelligence and skills, of changing market preferences, and of imperfect information, which can lead to temporary, market-generated unemployment, which Mises called "catallactic." And some people choose unemployment by holding out for a higher paying job. But as a society, we can insure that everyone who wants to work has a chance to do so by repealing minimum wage law, comparable worth rules, working condition laws, compulsory union membership, employment protection, employment taxes, payroll taxes, government unemployment insurance, welfare, regulations, licensing, anti-peddling laws, child-labor laws, and government money creation. The path to jobs that matter is the free market.

The National Bureau and Business Cycles

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Not only is there confusion about whether or not a recession is imminent, but some economists think that we're already *in* one. Thus, Richard W. Rahn, chief economist for the U.S. Chamber of Commerce, recently declared: "The economic slowdown is not coming: it's here, and soon it will be gone." Not knowing whether or not we're in a recession is not as silly as it sounds. It takes a while for data to come in, and then to figure out if a decline is a mere glitch or if it constitutes a new trend. But the natural confusion is compounded by the thrall in which virtually all economists, statisticians,

and financial writers have been held by the National Bureau of Economic Research.

Everyone waits for the National Bureau to speak; when the oracle finally makes its pronouncement, it is accepted without question. Thus, in 1966, the economy slowed down and receded to such an extent that I, for one, concluded that we were in a recession. But no, GNP had not declined quite long enough to meet the Bureau's definition of a recession, and that, unfortunately, was that. And since we were not in what the Bureau called a "recession," we by definition continued to be in a "boom." The reason is that, by the Bureau's peculiar and arbitrary standards and methods, the economy *cannot* be just sort of lolling along, in neither a boom nor a recession. It *has* to be in one or the other.

To say that the Bureau is fallible should go without saying; but instead, its pronouncements are taken as divine writ. Why is that? Precisely because the Bureau was cleverly designed, and so proclaimed, to be an allegedly value-free, purely "scientific" institution.

The Bureau is a private institution, supported by a large group of associations and institutions, business and union groups, banks, foundations, and scholarly associations, which confer upon it an almost painful respectability. Its numerous books and monographs are very long on statistics, short on text or interpretation. Its proclaimed methodology is Baconian: that is, it trumpets the claim that it *has no* theories, that it collects myriads of facts and statistics, and that its cautiously worded conclusions arise solely, Phoenix-like, out of the data themselves. Hence, its conclusions are accepted as unquestioned holy "scientific" writ.

And yet, despite its proclamations, the National Bureau's procedures themselves necessarily manipulate the data to arrive at conclusions. And these procedures are *not* free of theory, indeed they rest on faulty and questionable theoretical assumptions. Hence, the conclusions, far from being strictly

"scientific," are skewed and misshaped to the extent that they are determined by the procedures themselves.

Specifically, the Bureau selects "reference cycles," of the general economy, and then examines "specific cycles" of particular prices, production, etc. and compares these with the reference cycles. Unfortunately, all depends on the Bureau's dating theory, that is, it picks out only the trough and peak months, first for the general cycles, and then for each specific cycle. But suppose, as in many cases, the curve is flat, or there are several peaks or troughs close to each other.

In these cases, the Bureau, purely arbitrarily, takes the *last month* of the plateau, or the multi-peak or trough period, and calls *that* the peak or trough month. There is no earthly economic reason for this; why not take the whole period as a peak or trough period, or average the data, or whatever? Instead, the Bureau takes *only* the last month and calls that the peak or trough, and then compounds that error by arbitrarily squeezing the distance between the designated "peak month" and "trough month" into three equal parts, and assuming that everything in between peak and trough is a straight line of expansion or contraction, boom or bust.

In other words, in the real world, any given time series, say copper prices, or housing starts in California, might have dawdled near the trough, gone quickly upward, and stayed at a plateau or multi-peak for many months. But on the Procrustean rack of National Bureau doctrine, the activity is squeezed into a single, one-month trough; a straight line expansion, divided into three parts by time; reaching a single-month peak; and then going down in a similar linear, jagged-line contraction. In short, National Bureau methods inevitably force the economy to look falsely like a series of jagged, sawtoothed, straight lines upward and downward. The triumphant conclusion that "life is a series of sawtooth lines" is imposed by the way the Bureau massages the data in the first place.

That massaging is bad enough. But then the Bureau compounds the error by averaging all the specific cycles, its leads and lags, etc. over numerous specific cycles, as far as the data will go back, say from the 1860s to the 1980s. It is from that averaging that the Bureau has developed its indices of "leading," "coincident," and "lagging" indicators, the first of which are supposed to (but not very successfully) forecast the future.

The problem with this averaging of cycle data over the decades is that it assumes a "homogeneous population," that is, it assumes that all these cycles, say for copper prices or housing starts in California, are the same thing, and operate in the same context over all these decades. But that is a whopping assumption; history means change, and it is absurd to assume that the underlying population of all this data remains constant and unchanging, and therefore can be averaged meaningfully.

When the National Bureau set forth this methodology in Arthur F. Burns and Wesley C. Mitchell, *Measuring Business Cycles* (National Bureau of Economic Research, 1946), it was correctly criticized by a distinguished econometrician for being "Measurement without Theory" in the *Journal of Political Economy*, but still it quickly swept the board to achieve oracular status.

Particularly irritating were the claims of the Bureau that those of us who held definite business cycle theories were partial and arbitrary, whereas the Bureau spoke only from the facts of hard, empirical reality. Yet the Bureau has had far less respect for empirical reality than have allegedly "anti-empirical" Austrians. Austrians realize that empirical reality is unique, particularly raw statistical data. Let that data be massaged, averaged, seasonals taken out, etc. and then the data necessarily falsify reality. Their Baconian methodology has not saved the Bureau from this trap; it has only succeeded in blinding them to the ways that they have been manipulating data arbitrarily.